# Q1 2022 SUSTAINABILITY REPORTING UPDATE

## INTERNATIONAL SUSTAINABILITY REPORTING BULLETIN

2022/02

# BACKGROUND

Consistent with developments in sustainability reporting in 2021, the first quarter of 2022 has included significant progress by standard setters, regulators and some jurisdictions in the development and future application of sustainability reporting standards.

The International Sustainability Standards Board (ISSB), and standard setters and regulators in major jurisdictions, are working actively to complete the due process steps necessary in order to issue finalised sustainability reporting standards in the near term. Some of the largest jurisdictions have issued either working copies of standards or exposure drafts for public comment. Finalised standards may come into effect as early as 2023 for some entities, with many more entities being subject to some type of sustainability reporting standards from 2024-2026. In some jurisdictions, these requirements will apply regardless of whether an entity is publicly listed.

**EXECUTIVE SUMMARY**

The ISSB and standard setters for the EU and the US have all made significant progress in developing sustainability reporting standards.

While there are similarities in the approach taken, there are also some significant differences in the approach taken by the ISSB, the EU and the US to date.

This publication provides a ‘snapshot’ of sustainability reporting developments as at 31 March 2022 for select jurisdictions with a focus on standards being developed by the ISSB, and those being developed for use by entities in the European Union and the United States.

Information in this ISR Bulletin is current as of 1 April 2022. BDO will issue quarterly ISR Bulletins as sustainability standards are evolving quickly.

Although it is comprehensive, this summary is not exhaustive and does not include all standard setting activities of the ISSB and other organisations.

# IFRS FOUNDATION DEVELOPMENTS

## ISSB CONSOLIDATION AND BOARD APPOINTMENTS

As of 31 March 2022, two board positions have been filled by the ISSB:

- Chair: Emmanuel Faber (former CEO and Chair of Danone)
- Vice-Chair: Sue Lloyd (former vice-chair of the IASB)

In addition, Janine Guillot, current Chief Executive Officer of the Value Reporting Foundation (VRF), was appointed as a Special Adviser to the ISSB Chair with effect from 1 February 2022. The VRF is in the process of being consolidated into the IFRS Foundation.

In accordance with the IFRS Constitution, the Chair and Vice-Chair have the authority to issue exposure drafts subject to the oversight of the Due Process Oversight Committee, which was granted in mid-March, resulting in the issuance of the first two exposure drafts on 31 March 2022 (see below).

The next steps are for the ISSB to appoint six additional board members, which would result in the ISSB being quorate. This is necessary in order for the ISSB to be able to deliberate on feedback received to the exposure drafts. These first six appointments are expected by the end of Q2 2022. A further six appointments (bringing the ISSB to 14 total board members) are expected to be completed by the end of Q3 2022.

The IFRS Foundation has also progressed in consolidating standard setters into its operations as well as signing a key memorandum of understanding.

On 31 January 2022, the Climate Disclosure Standards Board (CDSB) consolidated into the IFRS Foundation. It is expected that the Value Reporting Foundation (VRF), which is responsible for the Integrated Reporting Framework and the SASB Standards, will consolidate into the IFRS Foundation by June 2022.

**BDO's Insight**

The memorandum of understanding between the IFRS Foundation and the GRI is significant because GRI standards are widely applied under current practice.

In March 2022, the IFRS Foundation signed a memorandum of understanding with the Global Reporting Initiative (GRI) which commits the ISSB and the Global Sustainability Standards Board (GSSB) to coordinate their work programmes and standard-setting activities.

The memorandum of understanding is expected to increase the compatibility and interconnectedness of investor-focused baseline sustainability information. The global baseline concept has been welcomed by the G20 Leaders, the International Organization of Securities Commissions (IOSCO) and others.

In summary, the ISSB has progressed in appointing its inaugural board and either merging or coordinating work efforts with several major sustainability reporting standard setters, which will further the goal of the ISSB to issue consistent global standards and reduce fragmentation.

## ISSUANCE OF FIRST EXPOSURE DRAFTS

On 31 March 2022, the ISSB issued two exposure drafts:

- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
- IFRS S2 Climate-related Disclosures

The proposals have been developed in response to requests from G20 leaders, the International Organization of Securities Commissions (IOSCO) and others for enhanced information from companies on sustainability-related risks and opportunities. The proposals set out requirements for the disclosure of material information about a company's significant sustainability-related risks and opportunities that are necessary for investors to assess a company's enterprise value and are not limited only to climate-related matters.

When the ISSB issues the final requirements, they will form a comprehensive global baseline of sustainability disclosures designed to meet the information needs of investors in assessing enterprise value. Multiple jurisdictions have already expressed their intention to endorse IFRS Sustainability Disclosure Standards for use in their own jurisdictions. As the ISSB's intention is to form a baseline of standards, jurisdictions may choose to introduce additional disclosure requirements that are deemed relevant.

The deadline for comments on both proposals is 29 July 2022. The ISSB is aiming to finalise the first two IFRS Sustainability Disclosure Standards by the end of 2022.

**BDO's Insight**

The ISSB has only issued two exposure drafts to date. However, the requirements proposed in IFRS S1 mean that an entity wishing to claim compliance with IFRS Sustainability Disclosure Standards would be required to disclose information about all material sustainability-related risks and opportunities, not only those related to climate.

## IFRS S1 GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION

The Exposure Draft (ED) includes proposals for definitions and requirements that are consistent with the IASB's *Conceptual Framework for Financial Reporting*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The proposals would require an entity to explain the connections between different pieces of information, including between various sustainability-related risks and opportunities and information in the entity's financial statements.

IFRS S1 proposes to require entities to disclose information about all material sustainability-related risks and opportunities to which an entity is exposed, regardless of whether a specific IFRS Sustainability Disclosure Standard has been issued addressing that topic (e.g., fair labour practices, water usage, etc.). The proposals direct companies to sources, including sustainability standards issued by other standard setters, that would help them to identify relevant sustainability-related risk and opportunities and to develop disclosures to enable investors to assess enterprise value.

The exposure draft proposes that disclosure of sustainability-related financial information be centred on four primary topics, which are aligned with those in the TCFD recommendations:

1. Governance
2. Strategy
3. Risk Management
4. Metrics and Targets

The proposals do not specify where an entity would provide these disclosures, however, they would be required to be part of the company's general purpose financial reporting, which might include an annual report, MD&A, strategic report, etc. A consequence of this requirement, which would bring a significant change to the timing of many companies' reporting of their sustainability information, in that sustainability-related financial disclosures would have to be published at the same time as the financial statements.

## IFRS S2 CLIMATE-RELATED DISCLOSURES

The objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities.

An entity's relationship with the environment has become increasingly important. Climate change presents significant risks for all entities, their activities and their economic sectors. The Exposure Draft was developed in response to calls from users of general purpose financial reporting for more consistent, complete, comparable and verifiable information, including consistent metrics and standardised qualitative disclosures, to help them assess how climate related matters and the associated risks and opportunities affect:

**BDO's Insight**

Identifying climate related risks and opportunities in the medium and long term may be particularly challenging for entities given the level of uncertainty related to carbon pricing, the effects of climate change and many other factors.

- an entity's financial position and financial performance;
- the amount, timing and certainty of the entity's future cash flows over the short, medium and long term and, therefore, the assessment of enterprise value by users of general-purpose financial reporting; and
- an entity's strategy and business model.

The proposals would require disclosure based around the four pillars noted in the summary of IFRS S1 above: governance, strategy, risk management and metric and targets, which is consistent with the approach taken in the TCFD recommendations. The proposals also require disclosure of information about climate-related physical and transaction risks and opportunities.

Included in the metrics and targets pillar, an entity would be required to disclose absolute gross scope 1, 2 and 3 greenhouse gas emissions in metric tonnes of CO2 equivalent and the intensity of those emissions (e.g., emissions per millions of dollars USD revenue).

IFRS S2 is accompanied by Appendix B – Industry-based disclosure requirements, which propose 77 industry classifications across 11 sectors. For example, the Infrastructure Sector comprises eight industry classifications including real estate and waste management. Appendix B is based on the disclosure requirements of the SASB standards and provides extensive technical guidance on the application of IFRS S2.

**BDO's Insight**

Entities that apply the proposals in the Climate exposure draft would meet the TCFD recommendations as well. This is because the Climate exposure draft incorporates and adds to the recommendations of the TCFD.

Useful links:

1. Exposure Draft Snapshot: high-level summary of the requirements
2. Exposure Draft page: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
3. Exposure Draft page: IFRS S2 Climate-related Disclosures
4. Comparison of TCFD recommendations with IFRS S2 exposure draft
5. Comparison of the Technical Readiness Working Group prototype standards with the exposure drafts

For further information and guidance on sustainability, please refer to BDO's Global IFRS Micro-site.

## JURISDICTIONAL UPDATE – EUROPEAN UNION

The European Union is pursuing its own sustainability standard setting agenda via the Corporate Sustainability Reporting Directive (CSRD), which aims to move investors towards sustainable investments. The CSRD would replace the Non-Financial Reporting Directive (NFRD), which was introduced in 2014.

**BDO's Insight**

While the draft ESRSs released to date address a broader range of topics than the exposure drafts published by the ISSB, the general sustainability-related financial disclosure ED issued by the ISSB would require an entity to make disclosures about all material sustainability-related risks and opportunities, regardless of whether there is a specific IFRS Sustainability Disclosure Standard for that topic or issue. Therefore, IFRS Sustainability Disclosure Standards will not be limited to climate only.

The CSRD will require EU Sustainability Reporting Standards (ESRS) to be developed and, since late-2021, the European Financial Reporting Advisory Group (EFRAG) has been releasing draft papers of ESRSs as staff have completed the first steps of drafting prior to the publication of exposure drafts for public comment and due process. Working papers may be accessed here.

In contrast to standards being developed by the ISSB and the US SEC (see below), the draft ESRSs released to date cover a very broad number of topics, including climate, working conditions, business conduct and biodiversity. The ESRSs also include extensive guidance on 14 sector groups, which are further broken down into 40 sectors. For example, the hospitality sector group is comprised of two sectors being food & beverage services and hotels & lodging. Each sector has specific disclosure requirements.

Concurrently, the European Council has been undertaking the necessary steps to finalise the CSRD. On 24 February 2022, the European Council agreed to its position on the general approach to the CSRD, as proposed by the European Commission. The final negotiations of the European Council, the European Parliament and the European Commission are starting at the date of issue of this ISRB, and it is anticipated that the CSRD will be finalised towards the end of Q2 2022.

Key changes proposed by the European Council and the European Parliament relate to the proposed effective date of the CSRD. When the CSRD was first announced in 2021, the effective date for larger entities was proposed to be for 31 December 2023 year-ends. The recently proposed changes would mean that the effective date of the CSRD would be:

## European Council

| Reporting periods beginning on | Type of entity |
|---|---|
| 1 January 2024 | Undertakings already subject to the NFRD (31 December 2024 year-ends reporting in 2025). |
| 1 January 2025 | Large undertakings not currently subject to the NFRD (31 December 2025 year-ends reporting in 2026). |
| 1 January 2026 | For listed SMEs, as well as for small and non-complex credit institutions and for captive insurance undertakings (31 December 2026 year-ends reporting in 2027). |

## European Parliament

| Reporting periods beginning on | Type of entity |
|---|---|
| 1 January 2024 | All large undertakings including those already subject to the NFRD (31 December 2024 year-ends reporting in 2025). |
| 1 January 2026 | SMEs, which choose to use simplified standards (31 December 2026 year-ends reporting in 2027). |

The deadline for the transition to reasonable assurance on sustainability reporting is proposed by the European Council to be 6 years after the CSRD has entered into force. The European Parliament has proposed a shorter timetable, with reasonable assurance by 2026.

The European Parliament has also proposed that the statutory (financial statements) auditor would be prohibited from providing assurance services (whether limited or reasonable) over an entity's sustainability reporting.

# JURISDICTIONAL UPDATE – UNITED STATES

On 21 March 2022, the US Securities and Exchange Commission (SEC) issued proposed rules that would be applicable to both domestic and foreign registrants and would require significantly enhanced climate-related disclosures in registration statements and annual reports (e.g., on Form 10-K). The proposed financial statement disclosures would be presented in a footnote to the consolidated financial statements, while the other disclosures enumerated below would be presented in a separately captioned section of the filing prior to management's discussion and analysis (MD&A). Registrants would be required to electronically tag both the qualitative and quantitative disclosures in Inline XBRL.

Comments on the proposal are due 30 days after the date of publication in the Federal Register or May 20, 2022, whichever is later.

**BDO's Insight**

The SEC has observed that certain aspects of its proposed requirements are similar to the disclosure recommendations in the TCFD, which also forms the basis of many of the proposed disclosure requirements in the ISSB's climate exposure draft.

A detailed summary of the proposed rule and significant anticipated impacts may be accessed on BDO USA's SEC page here.

## QUANTITATIVE DISCLOSURES WITHIN THE FINANCIAL STATEMENTS

In a note to the audited financial statements, the proposed rules would require certain disaggregated climate-related financial metrics that are derived from financial statement line items, including the following:

**BDO's Insight**

The requirement to disclose the impact of severe weather and other natural conditions along with transition activities by each financial statement line item would be significant for many entities, particularly smaller entities where one percent of each line item may be a low threshold triggering disclosure. Ensuring adequate internal controls and data exists to disclose this information accurately may be challenging.

- Financial impact metrics – the impact of severe weather and other natural conditions (including physical risks) and transition activities (including transition risks) on each financial statement line item unless the aggregate impact is less than one percent of the total line item for the relevant fiscal year. For example, an impairment recorded on a building destroyed by a wildfire would require separate disclosure assuming it exceeds the one percent threshold.
- Expenditure metrics – amounts expensed and capitalised during the fiscal years presented that are associated with climate-related events and transition activities subject to the same disclosure threshold above.
- Financial estimates and assumptions – whether estimates and assumptions used in the financial statements were impacted by exposure to risks and uncertainties associated with, or known impacts from, climate-related events.

As these disclosures would be included in the financial statements, rules and regulations applicable to internal controls over financial reporting (ICFR) would apply.

## QUANTITATIVE DISCLOSURES OUTSIDE OF THE FINANCIAL STATEMENTS

Registrants would be required to disclose:

- Direct GHG emissions (Scope 1) and indirect GHG emissions from purchased electricity and other forms of energy (Scope 2), separately disclosed.
- Indirect GHG emissions from upstream and downstream activities in a registrant's value chain (Scope 3), if material, or if the registrant has set a GHG emissions reduction target or goal that includes its Scope 3 emissions. Significant inputs and assumptions used in computing the Scope 3 emissions would also be disclosed. When included, such disclosures would be subject to a safe

harbour from liability under the federal securities laws. Smaller reporting companies (SRCs) would be exempt from the Scope 3 GHG emissions disclosure requirements.

## QUALITATIVE DISCLOSURES

Registrants would be required to disclose:

- How any climate-related risks have had or are reasonably likely to have a material impact on the business and consolidated financial statements, which may manifest over the short-, medium-, and long-term.
- How any identified climate-related risks have affected or are likely to affect the registrant's strategy, business model, and outlook.
- The registrant's process for identifying, assessing, and managing climate-related risks and whether any such processes are integrated into the registrant's overall risk management system or processes.
- Disclosure of processes for identifying, assessing, and managing climate-related risks.
- Disclosure of the registrant's transition plan, if any, adopted as part of the registrant's overall risk management strategy.
- Information about a registrant's publicly set climate-related targets and goals (if applicable).
- The oversight and governance of climate-related risks by the registrant's board and management.

## PHASE-IN PERIOD OF PROPOSED RULES

The proposed rules offer phased-in compliance dates dependent on a registrant's filer status. The level of assurance required for GHG emission disclosures would also be phased in over time. The following tables illustrate the proposed compliance deadlines for a calendar year-end registrant if the rules were adopted and effective in December 2022:

| Registrant Type | Disclosure Compliance Date | |
|---|---|---|
| | All proposed disclosures, including GHG emissions metrics: scope 1, scope 2 and associated intensity metric, but excluding scope 3 | GHG emissions metrics: scope 3 and associated intensity metric |
| Large accelerated filer[1] | Fiscal year 2023 (filed in 2024) | Fiscal year 2024 (filed in 2025) |
| Accelerated filer and non-accelerated filer[1] | Fiscal year 2024 (filed in 2025) | Fiscal year 2025 (filed in 2026) |
| Smaller reporting companies | Fiscal year 2025 (filed in 2026) | Exempted |

[1] Large accelerated and accelerated filers would be required to obtain a third-party attestation report over their Scope 1 and Scope 2 GHG emissions disclosures to include in their registration statements and annual reports. While the attestation provider would need to meet certain minimum standards (and incremental disclosures would be required about the provider), as proposed, the provider would not be required to be a registered public accounting firm.

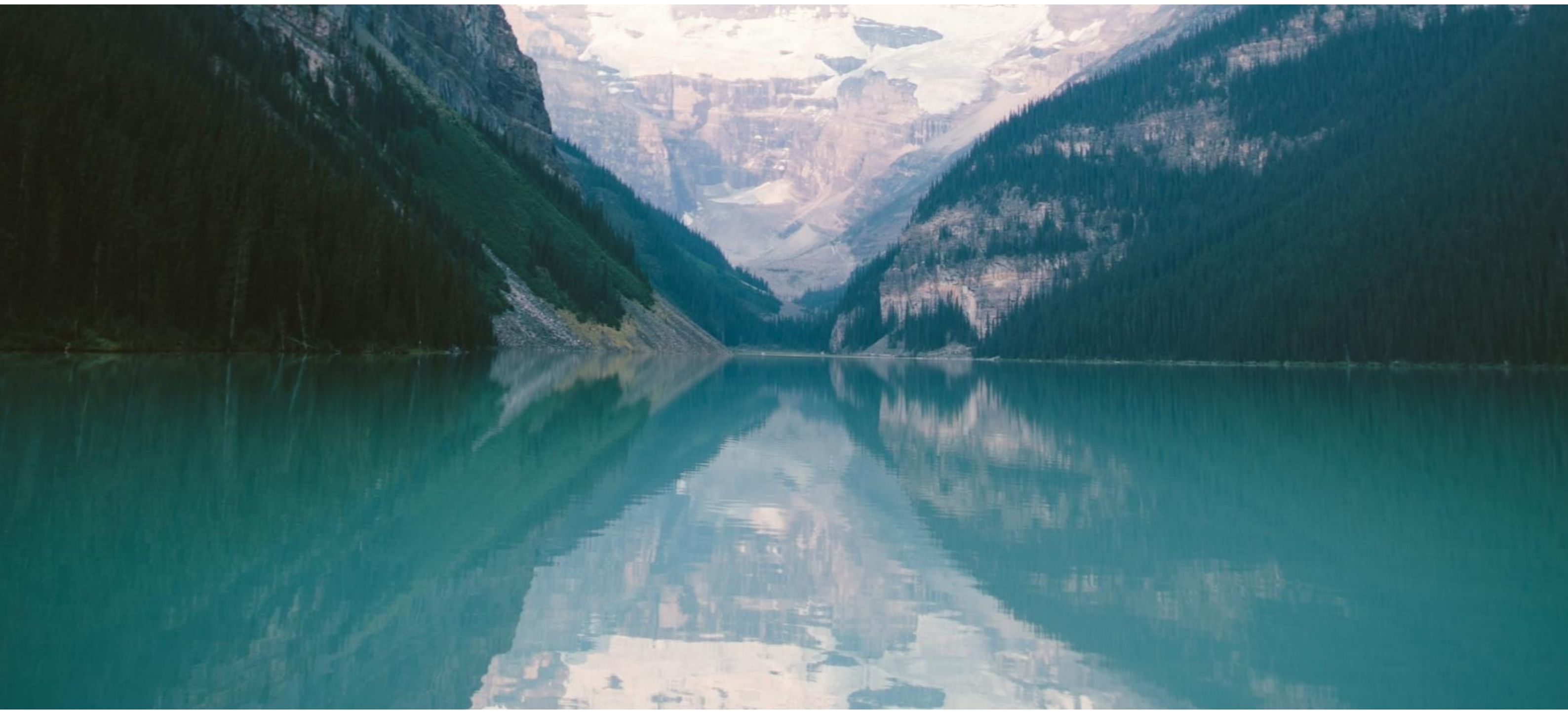
| Filer Type | Scope 1 and 2 GHG Disclosure Compliance Date | Limited Assurance | Reasonable Assurance |
|---|---|---|---|
| Large accelerated filer | Fiscal year 2023 (filed in 2024) | Fiscal year 2024 (filed in 2025) | Fiscal year 2026 (filed in 2027) |
| Accelerated filer | Fiscal year 2024 (filed in 2025) | Fiscal year 2025 (filed in 2026) | Fiscal year 2027 (filed in 2028) |

# OTHER JURISDICTIONAL UPDATES

| JURISDICTION | SUMMARY | MORE INFORMATION |
|---|---|---|
| China | The People's Bank of China (PBOC) has announced that PBOC plans to implement mandatory disclosures of climate-related information to be built on the requirements of the TCFD. On 8 February 2022, *Measures for Enterprises to Disclose Environmental Information by Law* came into effect, which regulates enterprises' disclosure of environmental information. Five types of enterprises must comply with the law: key pollutant-discharging enterprises; enterprises that are subject to mandatory review for clear production; listed companies and their subsidiaries at all levels; enterprises that issue enterprise bonds, corporate bonds, and debt financing instruments for non-financial enterprises; and other enterprises that should disclose environmental information under laws and regulations. | |
| United Kingdom | Premium listed companies must apply the requirements of the TCFD for years ended 31 December 2021, with the scope widening from 2022 onwards. The UK is expected to endorse ISSB Sustainability Disclosure Standards as a baseline of requirements and to add jurisdictional requirements (the so-called 'building blocks' approach). | How will the UK become a World Leader in Green Finance? |
| Japan | The Japanese Financial Services Agency (JFSA) has stated publicly that both public and private sectors will be required to disclose climate-related information, starting with large companies. The requirements will apply first to 'prime' segments, with expansion to 'standard' and 'growth' segments over time. The initial disclosures will be in accordance with the TCFD, however, the JFSA has indicated that they will actively participate in the initiative to develop a comparable and consistent disclosure framework for sustainability, including climate change, by the ISSB. | |
| Canada | In October 2021, the Canadian Securities Administrators (CSA) issued a consultation document requesting comments on a proposed National Instrument *Disclosure of Climate-related Matters*, which would impose mandatory climate-related disclosures on reporting issuers in Canada with limited exceptions. The proposals are largely in compliance with the TCFD requirements.<br>The CSA has expressed its support for the establishment of the ISSB. | CSA Request for Comment – Proposed National Instrument 51-107 *Disclosure of Climate-related Matters* |
| India | The Securities and Exchange Board of India (SEBI) issued a circular in May 2021 announcing a new Business Responsibility and Sustainability Report (or BRSR). The BRSR will apply to the top 1,000 listed companies by market capitalisation, and will be voluntary for financial years ending 31 March 2022 and mandatory a year later. Although SEBI has developed its own set of requirements, these are intended to be interoperable with leading sustainability disclosure frameworks and there is specific reference to companies that already report in accordance with, for example, SASB, TCFD or Integrated Reporting to be able to cross reference existing disclosures to the requirements in the BRSR. | SEBI Circular - Business Responsibility and Sustainability Reporting by Listed Entities |

# SUSTAINABILITY REPORTING RESOURCES

For further information and guidance on sustainability, please refer to BDO's Global IFRS Micro-site.





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